

P. O. BOX 2219

ZIA ENERGY, INC.

PHONE (505) 393-2937

HOBBS, NEW MEXICO 88241

January 28, 1997

New Mexico Energy and Minerals Department
Oil Conservation Division
P.O. Box 2088
Santa Fe, New Mexico 87504 - 2088

Attention: Mr. William J. LeMay
Director

Re: Request for administrative approval to surface
commingle production on our Turner lease.

Gentlemen:

Zia Energy, Inc. is requesting administrative approval for the surface commingling of production from two pools which are currently being produced on our Turner lease. This lease is located in the S/2 - SW/4 of Section 29, Township 21 South, Range 37 East, Lea County, New Mexico. All mineral and working interest ownerships for the pools to be commingled are the same. Plans are to commingle production from the Penrose-Skelly Grayburg and the Eunice San Andres. We believe that under guidelines outlined in OCD Rule 303.8 and the Division's "Manual for the Installation and Operation of Commingling Facilities" that we have met the requirements for commingling marginal pools on the same lease in which there is common ownership of working and mineral interests.

Zia Energy, Inc. is currently producing Well No. 1 from the Eunice San Andres formation and production from this well averages 8 BOPD and 60 MCFPD of gas and 40 BWP. Production from Well No. 2 is from the Penrose-Skelly Grayburg formation and production from this well averages 3 BOPD and 70 MCFPD of gas and 3 BWP. Gravity from the commingled oil is 32.7 degrees at 60 degrees F. The lease is currently averaging 11 BOPD and 130 MCFPD of gas and 43 BWP.

A schematic of the battery facilities is included for your information. A plat showing the location of the lease and the two wells is also included.

Crude oil from this lease is sold to Navajo Refining Company and no reduction in average sales price of the oil is expected as a result of surface commingling. The natural gas is sold to Warren Petroleum Company. No change in price is expected as a result of surface commingling natural gas from these two pools.

Zia Energy, Inc. proposes to produce both wells into a common heater treater and then into common storage. Production to each well will be allocated on the basis of a 24 hour well test to be performed quarterly. A diagram showing the surface facility is attached. All production records will be kept as per Oil Commission regulations governing commingling.

If you should require additional information, please call us collect at the above telephone number.

Sincerely,

Farris Nelson

Farris Nelson

71A ENERGY, INC.

H. S. Turner Lease

S/2-SW/4 Sec. 29-T21S-R37E

Lea County, New Mexico



